



**County Welfare Directors Association of California**

925 L Street, Suite 350, Sacramento, CA 95814  
(916) 443-1749

**CWDA**

February 11, 2009

To: All County Social Service Directors and Fiscal Officers  
From: CWDA Staff  
Pages: 3  
RE: State Budget Update #5 – State Budget and Federal Stimulus Deals Reported

**Summary**

In Sacramento, Legislative leaders and the Governor have reportedly reached a tentative mid-year budget deal to address the state's \$40 billion two-year budget deficit. Some details are being reported in the press and are presented below, though legislative leaders have so far declined to publicly confirm there is a deal or provide details. The deal is said to include a combination of tax increases, spending cuts, and borrowing, as well as a ballot measure that would establish a spending cap. The Legislature may vote on the budget deal as early as Friday, though staff and the legislative attorneys who write the bills have many finishing touches to put on any package.

In Washington, DC, Congressional leaders have reached a deal on a \$789.5 billion economic stimulus package, which would provide fiscal relief to states, including California, via enhanced federal match in Medicaid and TANF, and perhaps additional education funding. Details are still emerging on the federal package, but note that the state's budget deal likely relies on some amount of these additional federal funds to close the budget gap.

However, it is not clear whether the state and federal agreements come in time for the state to avoid the deferrals scheduled for later in February and March. The State Controller's Office indicated to us today that the deferrals planned in February are still occurring as of now, and that the decisions have not been made for future months as of yet and will be made after the Controller analyzes the details and likely impact of any budget deal on the state's cash flow situation.

**Tax Increases and Spending Cap Ballot Measure**

Per media reports, the state budget deal includes the following tax changes, for an unspecified amount of additional annual revenue:

- State sales tax will rise by 1 cent on the dollar.
- State gasoline taxes will rise by 12 cents per gallon.
- State vehicle license fees will rise from the current 0.65 percent of a vehicle's value to 1.15 percent, with 1 percent going to the General Fund and local law enforcement getting 0.15 percent.
- Personal income taxes will be increased across the board, either by assessing a surcharge on tax liability or increasing the tax rate.

The state budget deal also reportedly includes a ballot initiative to establish a spending cap that would require the state to place money into a rainy-day fund after reaching a limit determined by state revenues over a 10-year period. If approved by the Legislature, the initiative would likely be considered in a special election later this year.

All tax increases except the gasoline tax would reportedly have a two-year sunset date. If the spending cap initiative is passed, the tax increases would remain in effect for an additional three years.

The state budget deal also reportedly includes \$12 billion in borrowing against the state lottery's future profits. This would require voter approval.

We will confirm these details as bill language becomes available for review in the coming days.

### **Spending Cuts**

It is not yet clear what specific spending cuts are included in the deal, either in health and human services or elsewhere in the state budget. It does appear likely that the expected increase in federal funds due to the economic stimulus package, which may begin flowing to the state quickly, will help to reduce pressure for major cuts in this mid-year package.

### **State Controller Payment Delays**

We have received additional information on the deferrals from the State Controller's Office (SCO). According to the SCO, the following payments that were to be made to counties on February 13 or February 25 (depending on the payment) will instead be paid 30 days late, in March. The change from prior information is the Controller's Office statement that these payments will definitely be made in March after the 30-day delay.

- \$114 million in CalWORKs Grants, Stage One Child Care, Employment and Eligibility Services, and foster care and adoptions payments to caregivers.
- \$122 million in county administrative funding for Department of Social Services programs.
- \$22 million in county administrative funding through the Department of Health Care Services. This includes Medi-Cal eligibility operations. Payments will continue to be made for institutional and non-institutional providers, including doctors, nurses, dentists, adult day health care, home health care agencies, regional health care agencies, pharmacies, and other Medi-Cal home- and community-based services.
- \$188 million for the state portion of SSI/SSP grants to recipients. The state believes that the Social Security Administration will continue to pay full grants in March and, if necessary, in April despite the delay in state funding being provided.

Per the Controller, this information is for the month of February and future payment delays, if necessary, will be announced as decisions are made. Such decisions appear to be highly dependent on the enactment of a budget deal by the Legislature. Further, it is our understanding that the Governor's proposal to defer county payments for seven months is not part of the budget deal reached today, and that the Controller will continue to have the task of managing cash flow on a monthly basis.

Please note that we are working to identify what payments will be made to counties on February 13 and February 25 and the total amounts that will be paid in March. We anticipate that counties

will be receiving, for example, the federal portion of funds for the Department of Social Services programs, but the amounts that will be sent are not in the materials that have been released. We have requested this detail from CDSS and will share numbers once we receive them.

We are continuing to monitor the action that counties have been exploring (and, in some cases, taking, such as lawsuits that have been filed). As your county makes decisions regarding whether to float certain payments for the state or not, whether to take legal action, and whether to withhold county funds (such as county IHSS share or county tax revenues), please make sure to let us know at the CWDA office by emailing Anastasia or Cathy or calling one of us.

### **Federal Economic Stimulus Details**

After the Senate passed its version of economic stimulus on Tuesday, it was unknown how long it might take for the House and Senate to reconcile the differences into a final deal. It was therefore a little surprising for a deal to be announced this afternoon after just one day of formal negotiation.

Details are still emerging, but the agreement does include the following:

- Establishment of a TANF Emergency Fund that states could draw down, under specified circumstances, for the next two years up to a cap of \$3 billion nationwide. CWDA and states had urged the conferees to adopt the House version of this language, which was uncapped.
- An across-the-board increase to the federal matching percentage (FMAP) for Medicaid and Title IV-E foster care and adoption assistance expenditures of 6.2 percentage points (higher than the House's 4.9 percentage points but slightly lower than the Senate's 7.6 percentage points). As previously discussed, the requirement for states to maintain prior eligibility rules is in the deal, though the exact language is not yet known.
- An additional FMAP increase – for Medicaid expenditures only, not IV-E – that is based on states' unemployment rates. The amount was not specified in the summary documents that have been sent out.
- An extension of Transitional Medicaid (TMC) and the Qualified Individual (QI) program until December 31, 2010.
- Extension of the moratoria on regulations issued under the prior administration to curtail use of targeted case management and addition of a moratorium on regulations more narrowly defining hospital outpatient services. Both moratoria will last until June 30, 2009.
- Provision of a one-time payment of \$250 to Social Security beneficiaries and SSI recipients receiving benefits from the Social Security Administration and Railroad Retirement, as well as veterans receiving disability compensation and pension benefits from the Veterans Administration.

We also believe that the deal includes increases in Food Stamp benefits and associated administrative funding to states, but the details on this portion of the agreement have not been released.